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COMMONWEALTH OF MASSACHUSETTS

BEFORE THE

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D. T. E. 00-68

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JOINT PETITION OF
WESTERN MASSACHUSETTS ELECTRIC COMPANY,
NEW ENGLAND POWER COMPANY,
AND
FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

FOR APPROVAL OF ASSET DIVESTITURE

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DIRECT TESTIMONY OF

PAUL M. DABBAR

SEPTEMBER 8, 2000

Untitled

) August 24, 2000]

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I.

I. Introduction

Q. Please state your name and business address.

A. My name is Paul M. Dabbar. My business address is J.P. Morgan & Co. Inc., 60 Wall Street, New York, New York 10260-0060.

Q. What is your position with J.P. Morgan & Co. Inc.?

A. I am a Vice President in the Global Energy Investment Banking Group at J.P. Morgan Securities, Inc. ("J.P. Morgan"). I am a specialist in mergers and acquisitions in the energy industry. I joined J.P. Morgan in August 1996.

Q. Please summarize your educational and professional background.

A. I graduated with merit from the United States Naval Academy with a B.S. in Marine Engineering. I also graduated from the United States Naval Nuclear Power School. Additionally, I earned an M.B.A. from Columbia Business School. Prior to joining J.P. Morgan, I served for five years as a nuclear submarine officer

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in the United States Navy in various engineering positions, including Acting Chief Engineer.

Q. Have you testified previously before the Department of Telecommunications and Energy (the "Department")?

A. Yes. I testified in a previous asset divestiture proceeding, Western Massachusetts Electric Company, D.T.E. 99-74.

Q. On whose behalf are you submitting testimony?

A. I submit this testimony on behalf of J.P. Morgan as auction agent for the sale of the ownership interests of Western Massachusetts Electric Company ("WMECO"), New England Power Company ("NEP"), and Fitchburg Gas and Electric Light Company ("FG&E") in the Millstone Nuclear Power Station ("Millstone Station"). As described below, J.P. Morgan also served as auction agent for The Connecticut Light and Power Company ("CL&P") and certain other co-owners in Millstone Station.

Q. By whom was J.P. Morgan retained?

A. J.P. Morgan was retained by the Connecticut Department of Public Utility Control (the "DPUC") to act as the DPUC's exclusive agent to conduct an auction of Millstone Station (the "Auction") in accordance with Connecticut's electric restructuring act, Public Act 98-28, "An Act Concerning Electric Restructuring" (the "Connecticut Act"). Pursuant to

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authorization from the DPUC, included in the Auction were the ownership interests of WMECO, CL&P, Public Service Company of New Hampshire ("PSNH"), and the human and site assets of Northeast Nuclear Energy Company ("NNECO"), the current operator of Millstone Station. CL&P, WMECO, PSNH and NNECO are wholly-owned subsidiaries of Northeast Utilities ("NU"). The DPUC also directed J.P. Morgan to consider including in the Auction the ownership interests of other minority co-owners of Unit 3 of Millstone Station. The extent to which the interests of the Unit 3 co-owners were included in the Auction is discussed below.

Q. What is the purpose of your testimony?

A. J.P. Morgan is providing its testimony in support of the petition of the Massachusetts entities that are seeking approval of the sale of their Millstone Station assets. The Purchase and Sale Agreement for Millstone Station was executed by WMECO, CL&P, UI, PSNH, NNECO, Central Maine Power Company, Chicopee Municipal Lighting Plant, FG&E, Village of Lyndonville Electric Department, NEP, and Vermont Electric Generation and Transmission Cooperative as sellers, and by Dominion Resources, Inc. ("Dominion") as buyer. Connecticut Municipal Electric Energy ("CMEEC") has entered into a separate agreement for the sale of its interest in Millstone Unit 3, as explained below. Dominion is the winning bidder in the Auction and intends to assign its rights to Dominion Nuclear Connecticut, Inc. ("DNC"), an indirect, wholly-owned special-purpose subsidiary of Dominion

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Energy, Inc., which is wholly-owned subsidiary of Dominion.

Q. Please summarize the remainder of your testimony.

A. The remainder of my testimony consists of three parts:

Part II provides an overview of J.P. Morgan's role in conducting the Auction;

Part III describes the auction process; and

Part IV describes key results of the Auction.

II. J.P. Morgan's Role as Auction Agent

Q. How was J.P. Morgan selected by the DPUC as its Auction agent?

A. Section 7(c)(1) of the Connecticut Act directs the DPUC, in consultation with the Connecticut Office of Consumer Counsel ("OCC"), to "appoint a consultant who shall be an entity unrelated to [the selling utilities] that meets qualifications set by the department, to conduct the auction process." The DPUC conducted a competitive solicitation process to select an agent to manage and oversee the Auction on the DPUC's behalf. J.P. Morgan was the winner of that solicitation process and subsequently was appointed by the DPUC as its agent for the sale of Millstone Station. Consistent with the Connecticut Act's

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requirements, J.P. Morgan is not related to any of the entities whose ownership interests were offered for sale in the Auction.

Q. Did anyone supervise J.P. Morgan in its role as the DPUC's agent?

A. Yes. The DPUC designated a DPUC staff team, the Utility Operations Management Analysis Unit ("UOMA"), and charged UOMA with the task of overseeing the Auction process. The DPUC designed a process whereby UOMA acted as its independent supervisory agent during the conduct of the Auction. J.P. Morgan worked closely with UOMA throughout the Auction process and UOMA was fully apprised of all Auction activities. UOMA was present during all of the negotiations between NU and Dominion.

Q. Please describe generally J.P. Morgan's activities as Auction agent.

A. Under UOMA's supervision, J.P. Morgan, among other things, developed a strategy for the Auction, coordinated the production of the confidential Offering Memorandum and related marketing materials, and formulated and contacted a list of potential interested parties. Once the Auction process was underway, J.P. Morgan coordinated management presentations, site visits and responses to bidders' due diligence requests and questions. J.P. Morgan then reviewed the initial binding bids and proceeded with the selection of the successful bidder. Finally, J.P. Morgan coordinated the final negotiations between the winning bidder in

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the Auction and the selling entities. These negotiations culminated in the execution of the final Purchase and Sale Agreement. The Auction process is discussed in more detail in Part III below.

Q. What experience did J.P. Morgan have with the sale of assets prior to being engaged for the sale of Millstone Station?

A. J.P. Morgan is a full-service investment banking and securities firm. As part of its investment banking services, J.P. Morgan is continually engaged in the analysis of businesses and their assets in connection with, among other things, asset divestitures, and has substantial experience in transactions similar to this divestiture. For example, J.P. Morgan previously acted as the DPUC's auction agent in the successful sale of CL&P's and WMECO's non-nuclear generating assets. J.P. Morgan also acted as the DPUC's independent consultant and advisor in CL&P's recent solicitation of Standard Offer Service Requirements.

Q. What were the objectives of the Auction?

A. The goal of the Auction was, among other things, to ensure that the sale process would be equitable and would maximize the value of the existing generation facilities sold. It was J.P. Morgan's intent to structure a transaction that maximized the sales proceeds to the fullest extent possible. In addition, Connecticut law imposed a number of requirements with respect to

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the Auction. The Connecticut Act requires that (1) the assets must be sold through a commercially reasonable, public auction, (2) the sale price for each Unit of Millstone Station must meet or exceed the minimum bid price established by the DPUC for that Unit, (3) the Auction must be conducted in accordance with the Divestiture Plan that was approved by the DPUC, (4) the winning buyer must be qualified to own the facilities and must agree to preserve existing labor agreements(1), and (5) the Auction must result in a net benefit to ratepayers. The Auction process satisfied each of these requirements.

III. The Auction Process.

Q. Please describe the assets that were included in the Auction.

A. The assets included in the Auction consisted of 100% of Millstone Unit 1 (consisting of CL&P's 81% interest and WMECO's 19% interest), 100% of Millstone Unit 2 (consisting of CL&P's 81% interest and WMECO's 19% interest), and 93.47% of Millstone Unit 3. The 93.47% interest in Unit 3 included CL&P's 52.93% interest, WMECO's 12.24% interest, PSNH's 2.85% interest, UI's 3.69% interest, and the interests of several additional minority co-owners of Millstone Unit 3 (each a "Consenting Minority Co-Owner"). The Consenting Minority Co-Owners, and their respective ownership interests in Unit 3, are the following: NEP (16.21%), Central Maine Power Company (2.5%), Chicopee Municipal Lighting Plant (1.35%), CMEEC (1.09%), Vermont Electric Generation and Transmission Cooperative, Inc. (0.35%), FG&E

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(0.22%) and Village of Lyndonville Electric Department (0.05%).

Each Consenting Minority Co-Owner entered into an Authorization Agreement with NU that authorized NU to include the Consenting Minority Co-Owner's interest in the Auction and to negotiate the terms of the sale on the Consenting Minority Co-Owner's behalf. One Consenting Minority Co-Owner, CMEEC, reserved the right to withdraw its interest from the sale within ten business days following the provision to CMEEC of the terms and conditions of the Purchase and Sale Agreement for the winning bid. In addition, Central Vermont Public Service Corporation ("Central Vermont"), another minority co-owner of Unit 3, had an option to include its interest in the sale under the terms and conditions that are reflected in the final Purchase and Sale Agreement. The decisions of CMEEC and Central Vermont are noted below.

Also included in the Auction were the human and site assets of NNECO, certain qualified and non-qualified decommissioning trust funds, all remaining decommissioning liability associated with Millstone Station, and a number of leases, easements, contracts, licenses and permits related to Millstone Station. Bidders were informed that J.P. Morgan also reserved the right to include the interests of other minority co-owners of Millstone Unit 3 as the Auction process progressed. Bidders also were informed that no affiliate of NU or Consolidated Edison would participate in the Auction.

Q. Please describe the Auction process.

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A. The Auction was conducted according to the process that was approved by the DPUC in Docket No. 99-09-12. The Auction process began with an information-gathering stage, during which time J.P. Morgan solicited interest from entities known or believed to be potential bidders, based upon their previous public statements or participation in recent sales of nuclear assets. This initial solicitation encompassed a broad array of companies in the energy industry, including existing nuclear plant operators and generating companies.

The next step in the Auction process, which proceeded concurrently with the solicitation efforts described above, involved the preparation of a confidential Offering Memorandum that described the assets and the Auction process in detail. A videotape also was produced that provided an overview of Millstone Station. The Offering Memorandum and the videotape were provided to potential bidders who met the requirements established by J.P. Morgan for eligibility to participate in the Auction. To be eligible, potential bidders were required to sign a confidentiality agreement prepared by J.P. Morgan and to submit technical and financial qualifications that demonstrated their ability to purchase and operate the Millstone Station.

Bidders meeting these eligibility requirements received a copy of the Offering Memorandum and access to the electronic "data room" that was set up for the Auction on a secure Internet site. This electronic data room contained the documents that were

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compiled for the sale process and a list of answers to "frequently asked questions" regarding Millstone Station. As outlined in the Divestiture Plan and approved in the Decision, most of the due diligence in the Auction process was intended to occur, and did occur, during the period leading up to the date designated for bid submittal (the "Due Diligence Phase"). Bidders were invited to submit confidential questions regarding the assets to J.P. Morgan via the electronic data room site. Answers were provided only to the bidder who submitted the particular question. During the Due Diligence Phase, bidders also participated in individual pre-bid meetings during which major topics were presented, additional questions were addressed, and bidders were given the opportunity to make a site visit. In addition, during the Due Diligence Phase, drafts of the Purchase and Sale Agreement, the Interconnection Agreement and the Power Purchase Agreement (together, the "Definitive Agreements") were provided to bidders. Bidders were given an opportunity to submit two rounds of comments on those drafts. The first round of comments took place before bids were submitted. The bidders' first round comments were evaluated by White & Case LLP, the law firm that was retained as J.P. Morgan's counsel for purposes of the Auction, and by counsel for NU. Acceptable comments were incorporated into the Definitive Agreements, which were recirculated to bidders. In the second round of comments, bidders submitted any requested changes to the revised Definitive Agreements as part of their bid packages.

Q. How were contacts between bidder representatives and seller

representatives managed?

A. Potential bidders agreed in the confidentiality agreement not to contact any of the owners of the assets, the DPUC or UOMA. It was made clear that all contacts would be handled by J.P. Morgan in order to preserve the confidentiality of the bidder identities and the integrity of the Auction process. Any potential bidder who failed to observe this protocol could have been disqualified from the Auction. With the one exception noted here, J.P. Morgan did not disclose the identity of any potential bidder to any of the sellers' representatives, or to any other potential bidder, in any phase of the Auction process. Specifically, the identity of the leading bidder was necessarily revealed to NU once the final one-on-one negotiations commenced. During the Due Diligence Phase, each potential bidder was assigned a code name to shield its identity. To preserve confidentiality and anonymity during site visits and individual pre-bid meetings, bidder representatives were not allowed to identify their company affiliation and were instructed not to wear articles of clothing or bring items on site that displayed company logos or otherwise revealed the bidders' identities. In addition, questions submitted by potential bidders were screened to ensure that they did not reveal the bidders' identities to the seller representatives who fielded the questions.

Q. What information was included in the binding bids and when were they received?

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A. Following the Due Diligence Phase, qualified bidders submitted binding bids that were subject only to on-site verification due diligence. Bids were required to include specific information, including all of the following:

A detailed description of the bidder's financial and operational qualifications to purchase and operate Millstone Station;

A statement identifying the Units for which the bid was submitted;

Separate binding purchase price(s) for each Unit identified;

The amount of any required decommissioning fund top-off payment;

Separate purchase prices for the nuclear fuel inventories and non-fuel inventories, with credit information for any cash that was proposed to be paid in installments;

If desired by the bidder, a description of the specific terms to be included in a Power Purchase Agreement for the output associated with CL&P's ownership interest in each Unit;

A financing plan and operating plan for Millstone Station;

A statement of acceptance with regard to the employee protection obligations specified in the draft Purchase and Sale Agreement;

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and

A full mark-up showing any proposed changes to the Definitive Agreements.

J.P. Morgan received the binding bids on July 10, 2000.

Q. How were the binding bids evaluated?

A. J.P. Morgan reviewed and evaluated the bids according to criteria that were specified in the Offering Memorandum. In particular, bids were evaluated to determine which potential buyers were most likely to enable J.P. Morgan and the Millstone Station owners to achieve their objectives. These objectives included ensuring that the requirements in the Connecticut Act were satisfied. Other objectives included the desire to transfer all material assets, entitlements, obligations and liabilities associated with the assets, and to maximize opportunities for current Millstone Station employees after the sale. An additional objective was to ensure that the transaction would close in a timely manner.

Bids were evaluated based upon an assessment of each bidder's financial, operational, safety and other qualifications, the present value of its binding bid, and its willingness to accept the material terms of the transaction as reflected in the Definitive Agreements that were distributed to bidders. White & Case LLP, along with counsel for NU, evaluated the changes to

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the Definitive Agreements proposed by bidders in their bid submissions.

Q. Did J.P. Morgan screen bidders to ensure that they have the proper qualifications to operate Millstone Station safely?

A. Yes. As noted above, bidders were required to provide information demonstrating their financial and technical qualifications to purchase and operate Millstone Station in order to receive the Offering Memorandum and participate in the Auction. These qualifications included safety qualifications. In addition, each bidder was required to submit with its binding bid very detailed information regarding its financial, operational and safety qualifications to acquire and safely operate Millstone Station. These qualifications were considered in selecting the winning bidder.

Q. How did J.P. Morgan proceed after evaluating the initial binding bids?

A. Based on its assessment of the binding bids, J.P. Morgan identified a leading bidder whose bid was the most attractive in light of the criteria outlined above. Following consultation with UOMA, the decision was made to initiate post-bid negotiations with the leading bidder. At the same time, J.P. Morgan contacted the other bidders to retain their interest in moving forward in the Auction process in the event that post-bid negotiations with the leading bidder were not successful. The

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Leading bidder, Dominion, was given the opportunity to conduct on-site verification due diligence.

Q. How was the sale to Dominion finalized?

A. The identity of the leading bidder, Dominion, was disclosed to NU at the time that one-on-one negotiations commenced. The NU team was brought together with Dominion for the purpose of negotiating the final terms and conditions in the Purchase and Sale Agreement and the Interconnection Agreement. Dominion's bid did not include a Power Purchase Agreement.

The final Purchase and Sale Agreement was executed by CL&P, WMECO, PSNH, NNECO, UI, all Consenting Minority Co-Owners except CMEEC, and Dominion on August 7, 2000 for a purchase price for all assets included in the Auction of \$1.298 billion, subject to certain adjustments and deliverable fully in cash at closing. The results of the Auction were announced to the public on August 7, 2000.

The purchase price was not revealed to any of the selling entities, including NU, until the Purchase and Sale Agreement was executed. In addition, the identity of the buyer was not revealed to any of the selling entities except NU until the Purchase and Sale Agreement was executed by all parties.

After the Definitive Agreements were signed, CMEEC was given an opportunity to review them, consistent with its option to elect

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to withdraw its interest from the sale. CMEEC subsequently notified J.P. Morgan that it intended to move forward with the sale of its interest. A separate agreement was executed by CMEEC and Dominion that binds CMEEC to the terms and conditions of the Purchase and Sale Agreement. Central Vermont, the Unit 3 minority co-owner that had an option to include its interest in the sale, has notified J.P. Morgan and the other sellers that it elects to retain its ownership share of Unit 3. Thus, the total interest in Millstone Unit 3 that will be sold to Dominion remains 93.47%.

Q. Did J.P. Morgan keep NRC authorities at Millstone Station apprised of the Auction process?

A. Yes. J.P. Morgan worked with employees of NNECO, the current operator of Millstone Station, to keep NRC authorities at Millstone Station apprised of the Auction process.

Q. Will J.P. Morgan continue to provide the NRC with any information it deems necessary?

A. Yes. J.P. Morgan intends to offer any assistance that is requested to obtain the necessary NRC approvals for the sale and transfer of Millstone Station.

Q. In your opinion was the Auction held in a public and commercially reasonable manner?

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A. Yes. The Auction was a formal, competitive process that was open to all qualified bidders. Bidders in the Auction were given complete and non-discriminatory access to data and information. The Auction process was structured to obtain the best possible result by identifying a willing buyer who offered the highest price for the assets and the best overall terms and conditions of sale. The Auction was consistent with other asset sales conducted by J.P. Morgan.

IV. Key results of the auction

Q. Has the Auction maximized the value of the generation facilities being sold?

A. Yes. The final sale price for all of the assets that were offered in the Auction was \$1.298 billion, subject to certain adjustments and deliverable fully in cash at closing. Recognizing Dominion's allocation of this price among the Units as required by the DPUC, this sale price equates to a per Unit transaction multiple of \$507/kW for Millstone Unit 2 and \$791/kW for Millstone Unit 3, for a total transaction multiple of \$664/kW of capacity purchased. This is a very substantial price and well in excess of the minimum bids established by the DPUC for Units 2 and 3 (\$25/kW and \$185/kW, respectively).

Q. Is a decommissioning fund top-off payment included in the winning bid submitted by Dominion?

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A. Bidders in the Auction were notified in the Offering Memorandum that the decommissioning liability for Millstone Station and the existing decommissioning trust funds would be transferred to the buyer as part of the sale process. Bidders were given an opportunity to specify the amount, if any, of a one-time decommissioning fund "top-off" payment that they would require from the owners in order for the bidder to assume fully all remaining decommissioning liability associated with Millstone Station. To the extent that they submitted a proposal for a top-off payment, bidders were required to identify a top-off payment amount for each Unit individually in their bid.

Except under the limited circumstances that are described in the testimony of Mr. Soderman and Mr. Kacich on behalf of WMECO, the winning bid submitted by Dominion did not require any top-off to the decommissioning funds.

Q. Did the winning bid submitted by Dominion provide for a power purchase agreement with CL&P?

A. No. Bidders were notified in the Offering Memorandum that, although it was not a requirement of the Auction, they could submit a bid that included a Power Purchase Agreement for CL&P's output for a maximum term of five years. NU developed a draft Power Purchase Agreement that it would agree to execute and this draft was circulated to potential bidders for initial comments and subsequent comments in their bid submittals. Bidders who elected to include a Power Purchase Agreement in their bid were

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instructed to also submit a second bid that did not include a Power Purchase Agreement to enable J.P. Morgan to compare equivalent bids. However, the winning bid submitted by Dominion did not include any Power Purchase Agreement. As a result, no Power Purchase Agreement is proposed to be included in the sale of Millstone Station.

Q. Did Dominion include employee protection measures in its bid?

A. Yes. Dominion agreed to:

a) Offer all personnel who were employed at Millstone Station at any time during the three-month period prior to the sale closing continued employment, for a period of 12 months from the sale closing, at levels of wages and overall compensation not lower than the lowest level of wages and overall compensation of such personnel in effect during the six-month period prior to the sale closing. This requirement includes a commitment to establish and maintain during the continued employment period a tax qualified pension plan, a severance plan, and other plans and programs that provide the same level of benefits as the existing plans and programs that are available to Millstone Station employees. Many of these benefits were spelled out in detail in the Purchase and Sale Agreement.

b) Offer out-placement assistance and tuition reimbursement to any employee who is involuntarily terminated without cause during the five years immediately following the initial closing.

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c) Allow Millstone Station employees who become employees of the buyer to retain their credited years of service for the purpose of determining benefits eligibility under the plans of the buyer.

Q. Did Dominion commit to ensure a safety conscious work environment at Millstone Station?

A. Yes. Dominion has committed to continue the progress that has been made at Millstone Station in developing a culture that is focused on nuclear safety and committed to gaining the trust and confidence of the employees and the community. Dominion also emphasized its commitment to being a good corporate citizen in the communities where it serves or has facilities.

Q. What steps did J.P. Morgan take to ensure that the winning buyer would be qualified to own the Millstone Station?

A. As discussed above, the selection criteria that were used in the Auction included consideration of a bidder's financial, operational, safety and other qualifications to acquire and operate Millstone Station. Each bidder was required to submit with its binding bid a description of its financial and operational qualifications. Specifically, bidders were required to submit a copy of their most recent annual report and audited statements, and a description of the bidder's experience owning and/or operating power plants. Bidders were instructed to

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include a list of all energy or power plants operated by the bidder or its affiliates, and previous acquisitions of energy or power projects by the bidder or its affiliates. Importantly, bidders also were asked to describe their nuclear-specific experience, including existing nuclear operations, decommissioning experience, SALP, Plant Performance Review or other NRC oversight ratings or reviews and INPO results, nuclear generation acquisition experience, and NRC license holder qualifications.

Q. Based on Dominion's compliance with these requirements, was J.P. Morgan satisfied that Dominion would be able to demonstrate its qualifications to own and operate the Millstone Station?

A. Yes. Dominion submitted all of the detailed information that was required in the Auction to demonstrate its financial, operational, safety and other qualifications to own and operate Millstone Station, as described above. Dominion has substantial experience acquiring, developing and operating generating facilities and currently operates, through its Virginia Power subsidiary, two nuclear stations. Dominion submitted information demonstrating its strong safety and performance record in operating these stations, and its experience with spent fuel storage and nuclear decommissioning.

V. CONCLUSION

Q. Please summarize how the Auction results provide net benefits

to ratepayers.

A. As discussed above, the Auction process was fair and equitable and structured to maximize, to the fullest extent possible, the value of Millstone Station. The sale price that resulted is many times in excess of the minimum bid amounts that were specified by the DPUC for Units 2 and 3. In addition, except under the limited circumstances that are described in the testimony of Mr. Soderman and Mr. Kacich, Dominion has agreed to assume all remaining decommissioning liability for Millstone Station without requiring any "top-off" payment. Finally, Dominion agreed to comply with all requirements imposed under the Auction. For all of these reasons, the Auction provides substantial net benefits to ratepayers.

Q. In your opinion, should the proposed sale of Millstone Station be approved?

A. Yes.

Q. Does this conclude your testimony?

A. Yes.

1. 1 There are no existing labor agreements at Millstone Station.

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